ANNUAL REPORT 1965

file

AMAX

AMERICAN METAL CLIMAX, INC.

BOARD OF DIRECTORS

FOR THE TERM ENDING 1966

FRANK B. COMMON *(Montreal, Canada), Counsel and Partner, Howard, Cate, Ogilvy, Bishop, Cope, Porteous & Hansard*
DONALD J. DONAHUE, *Executive Vice President and Treasurer*
ELMER N. FUNKHOUSER, Jr., *Executive Vice President*
WALTER HOCHSCHILD, *Honorary Chairman of the Board and Chairman of the Executive Committee*
DAVID D. IRWIN, *Director, Roan Selection Trust Limited*
HAROLD J. SZOLD, *Partner, Lehman Brothers*
EDWARD C. WHARTON-TIGAR *(London, England), Managing Director, Selection Trust Limited*

FOR THE TERM ENDING 1967

THOMAS H. BRADFORD *(London, England), Director, Selection Trust Limited*
WILLIAM A. M. BURDEN, *Partner, William A. M. Burden & Co.*
FRANK COOLBAUGH, *Chairman of the Board*
HAROLD K. HOCHSCHILD, *Honorary Chairman of the Board and Chairman of the Compensation Committee*
CARL M. LOEB, Jr., *Chairman of the Board, American Thermocatalytic Corporation*
IAN MacGREGOR, *President*
LAWRENCE J. PLYM, *Vice President*

FOR THE TERM ENDING 1968

A. CHESTER BEATTY *(London, England), Chairman, Selection Trust Limited and Consolidated African Selection Trust Limited*
ARTHUR H. DEAN, *Partner, Sullivan & Cromwell, General Counsel of the Company*
GABRIEL HAUGE, *President, Manufacturers Hanover Trust Company*
WALLACE MACGREGOR, *Senior Executive Vice President*
GORDON W. REED, *Consultant to the Company and Chairman of the Finance Committee*
FRED SEARLS, Jr., *Director, Newmont Mining Corporation*

Executive Committee

WALTER HOCHSCHILD, *Chairman*
FRANK COOLBAUGH
ARTHUR H. DEAN
ELMER N. FUNKHOUSER, Jr.
HAROLD K. HOCHSCHILD
CARL M. LOEB, Jr.
IAN MacGREGOR
WALLACE MACGREGOR
LAWRENCE J. PLYM
GORDON W. REED
FRED SEARLS, Jr.
EDWARD C. WHARTON-TIGAR

Finance Committee

GORDON W. REED, *Chairman*
WILLIAM A. M. BURDEN
FRANK COOLBAUGH
ARTHUR H. DEAN
DONALD J. DONAHUE
HAROLD K. HOCHSCHILD
WALTER HOCHSCHILD
IAN MacGREGOR
WALLACE MACGREGOR
LAWRENCE J. PLYM
HAROLD J. SZOLD
EDWARD C. WHARTON-TIGAR

AMAX
AMERICAN METAL CLIMAX, INC.
Incorporated in the State of New York in 1887
1270 AVENUE OF THE AMERICAS • NEW YORK, N.Y. 10020

OFFICERS

FRANK COOLBAUGH, *Chairman of the Board*
IAN MacGREGOR, *President*
WALLACE MACGREGOR, *Senior Executive Vice President*
DONALD J. DONAHUE, *Executive Vice President and Treasurer*
ELMER N. FUNKHOUSER, Jr., *Executive Vice President*
ALVIN J. HERZIG, *Vice President*
JOHN PAYNE, Jr., *Vice President*
LAWRENCE J. PLYM, *Vice President*
ERNEST T. ROSE, *Vice President*
PAUL R. SCHULTZ, *Vice President*
JOHN TOWERS, *Vice President*
REUEL E. WARRINER, *Vice President*
FRANK X. WHITE, *Vice President*
JOHN F. FRAWLEY, *Controller*
ERWIN A. WEIL, *Secretary*

GENERAL COUNSEL
Sullivan & Cromwell

CERTIFIED PUBLIC ACCOUNTANTS
Lybrand, Ross Bros. & Montgomery

TRANSFER AGENT
Manufacturers Hanover Trust Company

REGISTRAR
Irving Trust Company

1965 ANNUAL REPORT TO AMAX SHAREHOLDERS

Sales and earnings in 1965 set new records. Major mining, processing and fabricating facilities worked at capacity and operating productivity was improved.

Earnings rose 32% over 1964 to a new high of $60,120,000 or $4.00 per share. Sales were up 8% to $475,020,000. Dividend income from mining companies in which our Company holds substantial interests increased 60% to $18,030,000, after foreign and United States taxes.

Earnings in each quarter posted new records for comparable periods. Fourth quarter earnings were the highest for any quarter in AMAX's history. In November, the Board of Directors raised the quarterly dividend on common stock by $7\frac{1}{2}$¢ to $47\frac{1}{2}$¢ per share. This increase reflects Company policy of paying consistent and stable dividends with increases when earnings and corporate cash requirements permit.

To meet its goals, AMAX is well along in its five-year capital expansion program which extends through 1969. During 1965, the Company spent a record $71,400,000 for additions to property, plant and equipment.

The Climax Division is scheduled, by mid-1966, to bring into operation its new oxide recovery plant, which should add approximately 3,000,000 pounds of molybdenum a year to its output. Construction and development of the Urad molybdenum mine in Colorado is on schedule. The mine should be producing by mid-1967 and will add about 7,000,000 pounds of molybdenum a year to present capacity. The two new production facilities will add approximately 20% to current output.

The new molybdenum conversion plant at Rotterdam, Holland, is expected to be in operation this year. This plant will have an annual capacity of 12,000,000 pounds and will convert molybdenum concentrates to molybdenum products and permit more efficient service to European customers.

To expand molybdenum and refractory metal research technology, the new Climax Division research laboratory at Ann Arbor, Michigan, was completed and functioning with an enlarged staff in mid-1965.

During 1965, AMAX enhanced its position in aluminum production, fabrication and marketing. To meet the Company's growing requirements for primary aluminum, AMAX and its partners, the Pechiney Company of France and the Howmet Corporation, agreed to double to 152,000 tons a year the originally planned size of the primary aluminum reduction plant now under construction near Bellingham, Washington. Initial operation of the first potline is scheduled to begin by mid-1966.

In 1965, AMAX constructed aluminum fabricating plants in Pennsylvania and Kentucky, and in January, 1966, purchased the Johnston Foil Company of St. Louis, a producer of aluminum, tin and lead foil.

In association with American & Foreign Power Company, Inc., we are building an aluminum sheet products plant in Mexico scheduled for operation late this year. In Australia, AMAX formed Kawneer Company Pty. Limited, in which it holds a 53% equity, to manufacture architectural aluminum products for the Australian market.

Construction began on the $35,000,000 lead mine-mill-smelter complex AMAX and the Homestake Mining Company are developing in Southeast Missouri. Contracts were let for two shafts and sinking was underway on both by year-end.

Preliminary engineering studies have been completed for the Mt. Newman iron ore deposits in Western Australia in which AMAX and The Colonial Sugar Refining Company Limited hold equal interests.

For the Puerto Rican copper venture, studies are now underway on mine layout, ore beneficiation plant, smelter and acid plant. Discussions continue with Puerto Rican authorities.

In Saskatchewan, Canada, mining tests and exploration drilling have been completed on a sizable potash orebody, and an economic evaluation is being made.

Other minerals and metals with bright market prospects are under constant consideration. In June, AMAX and The Carborundum Company formed a jointly-owned company, Carborundum Metals Climax, Inc., for the production and marketing of zirconium, hafnium, titanium and their alloys. Growth prospects for these three metals are considered promising.

Because of mounting demand for our products, we have intensified exploration activities to find new deposits of molybdenum, copper, zinc and aluminum ores. We are also examining potential sources of potash, phosphate, lead, and other minerals and metals in areas strategically situated for present and future markets.

The AMAX Chemical and Petroleum Division, which includes Southwest Potash Corporation and the AMAX Petroleum Corporation, has been organized to consolidate the Company's activities in petroleum, agricultural chemicals, fertilizer materials and related products.

The new AMAX Lead & Zinc Division is responsible for the Company's lead, zinc and cadmium business.

With increasing executive responsibilities resulting from expanded operations, Donald J. Donahue, Ian MacGregor and Wallace Macgregor were elected Executive Vice Presidents in October.

Frank Coolbaugh, who served as President since 1960, was elected Chairman of the Board and Chief Executive Officer effective January 1, 1966 succeeding Walter Hochschild, who reached retirement age after 45 years of service. Mr. Hochschild, one of the principal architects of our Company's growth and diversification, remains a Director and Chairman of the Executive Committee, and was elected an Honorary Chairman of the Board.

Gordon W. Reed, a Director and Consultant to our Company, was elected Chairman of the Finance Committee, effective January 1, 1966, succeeding Frank Coolbaugh.

In January, 1966, John Towers was elected a Vice President; he continues as President of AMAX's United States Metals Refining Company Division.

Early this month, Ian MacGregor was elected President of AMAX succeeding Frank Coolbaugh. Wallace Macgregor became Senior Executive Vice President of the Company at the same time.

As noted elsewhere in this report, it was a good year for mining enterprises in Southern Africa in which we have investment interests, and this was reflected in their dividend payments. Operations at all of these mines have continued normally. However, new uncertainties for the copper companies in Zambia have been posed by Rhodesia's unilateral declaration of independence last November. This situation presents some new problems and many imponderables for landlocked Zambia. The copper companies and the Zambian Government are exploring alternative ways to ship copper out of the country and bring in supplies.

We continue to follow closely the development of the United States Government's policies with respect to the balance of payments problem. In 1965, AMAX cooperated fully in the Government's voluntary program to reduce the balance of payments deficit. Because of our dividend income from investments abroad and our export business, our Company continued to be a substantial favorable contributor to the United States balance of payments in 1965.

AMAX, like every other mining company, must continually seek new mineral deposits as its existing mines are depleted. Domestic reserves of commercial ores are limited and exploration must be extended to foreign shores. Reduction in overseas investment in mining properties that return dollar profits can, in the long run, only impair the United States balance of payments position and jeopardize the long-term supply of the minerals and metals essential to American industry.

AMAX supports the release of excess Government stockpile materials, accurately established under a program controlled by Congress, and vigorously opposes any efforts to use the stockpile as an instrument of price control superimposed on a normal supply-demand market.

The report which follows describes the accomplishments of the AMAX divisions and interests this past year. We greatly appreciate the cooperation and loyalty of all AMAX employees and the support which has been extended to AMAX management by its shareholders and customers throughout the year.

Frank Coolbaugh

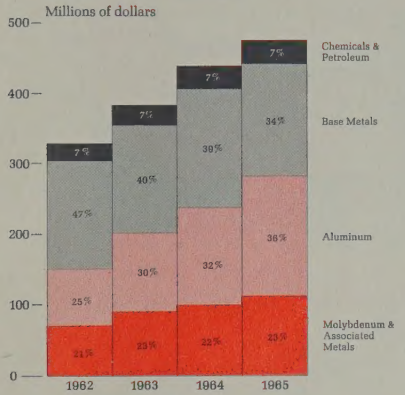
Chairman

I. K. MacGregor

March 17, 1966 *President*

Financial Review

Sales



Changes in Working Capital During 1965

		(in millions)
Working capital December 31, 1964		**$188.2**
Additions		
Net earnings		60.1
Depreciation and depletion		17.5
Sale of common stock under option plans		2.1
Increase in long-term debt		26.6
Decrease in investments		2.7
Other additions		4.3
		113.3
Reductions		
Dividends on preferred and common stock		26.1
Expenditures for property, plant and equipment	$71.4	
Less retirements	7.0	64.4
		90.5
Net increase		**22.8**
Working capital December 31, 1965		**$211.0**

■ **Summary** *AMAX net earnings set an all-time high of $60,120,000 in 1965, the second year in a row a new earnings record was achieved. Net working capital at year-end also reached a new peak, and the overall financial position of the Company continued strong.*

SALES AND EARNINGS

Sales in 1965, predominantly made in the United States, were $475,020,000, an increase of 8% over the comparable total of $438,170,000 in 1964. Excluding sales applicable to the Company's agency businesses, which were sold to Roan Selection Trust Limited on December 31, 1963, sales in 1965 set a new record for the third consecutive year. The increase came principally from aluminum and the molybdenum and associated metals operations.

Aluminum sales, which advanced to over one-third of the Company's total sales, showed the largest increase—23%. Molybdenum and associated metals sales rose 14% to a record level, and represented one-quarter of the year's total. Base metal sales, slightly below 1964, accounted for another one-third of total Company sales. Sales of chemicals and petroleum products were slightly ahead of 1964.

Earnings from operations before taxes amounted to $50,780,000, an improvement of 19% over the $42,840,000 earned in 1964. Operating earnings in 1965 were 10.7 cents per dollar of sales compared with 9.8 cents in 1964. This rise in earnings resulted from operating efficiencies, a strong metals market and increased production and sales.

Earnings from other sources, before taxes and after deducting interest paid, totaled $28,950,000, more than double the $14,160,000 earned in 1964. Dividends from the Company's investments in mining companies, summarized on page 18, increased to $20,830,000 in 1965, reflecting the strength in base metals markets. Interest income and net profit on investments in 1965 amounted to $12,390,000, up $6,670,000 from 1964. The increase came mainly from profit on the sale of investments in other companies. AMAX equity in the earnings retained in their 1965 fiscal years by companies in which important minority interests are held is estimated to be 43¢ per AMAX common share.

Net earnings in 1965 reached a record high of $60,120,000, or $4.00 a share of common stock, and were 32% higher than the previous record of $45,600,000, or $3.03 a common share, set in 1964.

FINANCIAL POSITION

Net working capital was $210,970,000 at year-end, an increase of $22,790,000 during 1965. Cash, time deposits, certificates of deposit and short-term marketable securities totaled $185,650,000, an increase of $54,890,000. The relatively high amount of cash and equivalent items was accumulated for planned major expansions and includes the unexpended balances of borrowings made for this purpose during the past three years. Receivables, less reserves, were $76,470,000 on December 31, 1965, an increase of $20,010,000 over the preceding year-end. Inventories increased to $74,130,000 in 1965, up $5,230,000 from 1964.

Notes payable due within one year from December 31, 1965, totaled $45,540,000, including $42,000,000 of interim borrowings by AMAX Iron Ore Corporation which it is anticipated will be amended to long-term notes. The total of long-term notes payable (included under "Other Liabilities", page 22) amounted to $108,030,000. Major obligations included in long-term notes payable consisted of the $60,000,000 of notes issued in 1963, and $34,590,000 of the $35,000,000 of notes issued in 1964 and 1965 for construction of aluminum reduction facilities.

Investments in other companies, carried at cost or less, amounted to $53,390,000 at the close of 1965, compared with $56,120,000 at the end of 1964. Details of these investments are shown on page 4.

Shareholders' equity at the end of 1965 was $349,960,000, an increase of 12% over the $313,880,000 at the end of 1964. During the ten years ended in 1965, shareholders' equity

increased 75%, from $199,500,000 to $349,960,000.

AMAX CAPITAL EXPENDITURES

During 1965, the Company spent $71,400,000 for additions to property, plant and equipment. The 1965 expenditures exceeded depreciation and depletion by $53,920,000, and were substantially higher than in any other year of the Company's history. Capital outlays for expansion and modernization in molybdenum and aluminum accounted for more than two-thirds of the 1965 total.

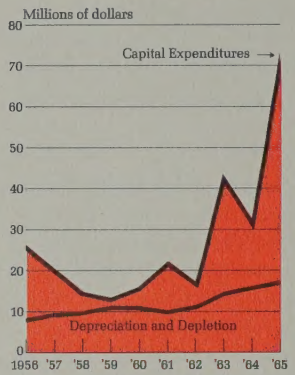
Under its current five-year capital expansion program, which extends through 1969, the Company plans facilities for major increases in production of molybdenum, aluminum, copper, lead, zinc, metal powders and potash. Plans also call for major spending to develop iron ore deposits in Western Australia.

DIVIDENDS AND CAPITAL STOCK

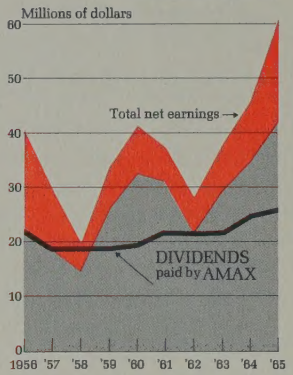
Total dividends declared in 1965 amounted to $26,100,000, an increase of $1,190,000 over 1964. Dividends paid on common stock totaled $1.675 per share in 1965, compared with $1.60 in 1964. The quarterly dividend paid in December, 1965, was increased by 7½¢ to 47½¢ per share. Quarterly dividends of 40¢ a share had been paid since March, 1964, when the rate was raised from 35¢. Regular quarterly dividends of $1.0625 were paid on the 4¼% convertible preferred stock.

At the end of 1965 there were 14,582,996 shares of common stock outstanding held by 25,400 shareholders of record. In addition, 43,100 common shares were held in the Company's treasury. During the year, the number of common shares outstanding increased by 128,968. This increase resulted from the issuance of 70,567 shares to cover the exercise of options under the stock option plans, which are described on page 25, and the conversion of 23,365 shares of the Company's 4¼% convertible preferred stock into 58,401 full common shares. At the end of 1965, there were outstanding 409,802 shares of convertible preferred stock held by 1,400 shareholders.

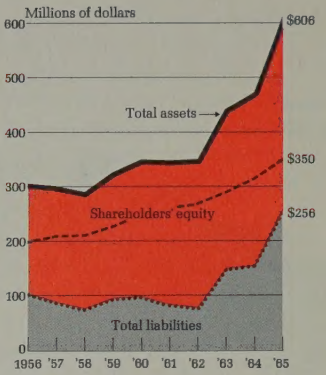
Capital Expenditures
Depreciation and Depletion



Net Earnings
From dividends (after tax)
From operations (after tax)



Financial Position



AMAX INVESTMENTS IN OTHER COMPANIES, *at December 31, 1965*

Listed Securities	Number of Shares	AMAX Equity	Cost	Market Value (1)
Roan Selection Trust	9,936,479	46%	$27,650,000	$ 60,260,000
O'okiep Copper Company	196,369	19	490,000	22,390,000
Copper Range Company	338,252	17	8,650,000	16,320,000
Canada Tungsten Mining Corp.	1,750,000	35	1,210,000	2,330,000
Miscellaneous			350,000	650,000
Total listed			38,350,000	$101,950,000
Unlisted Securities				
Tsumeb Corporation (2)	1,165,000	29	790,000	
Carborundum Metals Climax	15,000	50	3,090,000	
Palabora Mining Co. and Palabora Holdings Limited (3)	(Loan and Equity)		3,330,000	
Canada Tungsten Mining Corp.	(Note and Debentures)		2,370,000	
Minera Frisco	(Loan and Equity)		2,080,000	
Miscellaneous			3,380,000	
Total unlisted			15,040,000	
Total investments			$53,390,000	

(1) The Company makes no representation that these values could be realized in the event of a sale of these holdings. The estimated total market value of unlisted securities is in excess of cost.
(2) While there was no quoted market price for Tsumeb Corporation shares, that Corporation's earnings for its fiscal year ended June 30, 1965, of $26,440,000 ($6.61 per share) indicate that the Company's holdings in Tsumeb have a value substantially in excess of cost.
(3) The Company's interest in Palabora Mining Company, including indirect interest through Palabora Holdings Limited, amounts to 8%. The imputed value of the combined interest, based on market value of the underlying listed Palabora shares, is $16,790,000.

TEN YEAR SUMMARY • AMERICAN METAL CLIMAX, INC.

	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956
FINANCIAL POSITION (in millions)										
WORKING CAPITAL	**$211.0**	$188.2	$175.1	$130.2	$133.4	$134.2	$117.8	$ 96.6	$ 97.4	$101.1
INVESTMENTS (at book amounts):										
Investments in Africa	**32.8**	32.5	31.3	25.5	25.3	25.0	24.3	24.8	24.8	24.4
Other investments	**20.6**	23.6	22.5	21.5	19.5	15.0	16.4	23.4	23.9	19.3
PROPERTY, PLANT AND EQUIPMENT (Net)	**198.1**	151.2	132.3	105.6	101.6	94.1	93.3	92.2	89.5	78.8
LONG-TERM DEBT	**(108.0)**	(81.4)	(72.9)	(10.0)	(15.3)	(15.2)	(16.4)	(17.3)	(19.0)	(20.2)
OTHER LIABILITIES LESS OTHER ASSETS	**(4.5)**	(.2)	2.7	(3.6)	(1.9)	(2.9)	(7.4)	(7.3)	(5.8)	(3.9)
SHAREHOLDERS' EQUITY	**$350.0**	$313.9	$291.0	$269.2	$262.6	$250.2	$228.0	$212.4	$210.8	$199.5
EARNINGS and DIVIDENDS (in millions)										
SALES OF PRODUCTS AND SERVICES	**$475.0**	$438.2	$381.9	$327.2	$347.4	$367.7	$339.6	$344.3	$309.2	$341.3
SALES BY AGENCY BUSINESSES[1]	**—**	—	325.0	315.0	304.0	384.0	407.0	246.0	349.0	463.0
TOTAL SALES	**$475.0**	$438.2	$706.9	$642.2	$651.4	$751.7	$746.6	$590.3	$658.2	$804.3
OPERATING AND OTHER INCOME	**$ 58.9**	$ 45.3	$ 42.9	$ 34.6	$ 45.3	$ 52.7	$ 42.9	$ 22.4	$ 28.4	$ 35.4
DIVIDEND INCOME	**20.8**	11.7	10.5	8.1	7.4	10.7	8.6	6.5	13.5	21.8
FEDERAL AND FOREIGN INCOME TAXES	**(19.6)**	(11.4)	(15.6)	(14.6)	(15.5)	(22.1)	(18.2)	(9.0)	(12.0)	(16.8)
NET EARNINGS	**$ 60.1**	$ 45.6	$ 37.8	$ 28.1	$ 37.2	$ 41.3	$ 33.3	$ 19.9	$ 29.9	$ 40.4
DIVIDENDS DECLARED:										
On preferred stock	**$ 1.8**	$ 1.8	$ 1.8	$ 1.8	$ 2.0	$ 2.0	$ 2.0	$ 2.0	$ 2.0	$ 2.0
On common stock	**24.3**	23.1	20.1	20.0	19.9	17.7	17.0	17.0	17.0	20.3
TOTAL	**$ 26.1**	$ 24.9	$ 21.9	$ 21.8	$ 21.9	$ 19.7	$ 19.0	$ 19.0	$ 19.0	$ 22.3
PER SHARE OF COMMON STOCK:[2]										
NET EARNINGS	**$4.00**	$3.03	$2.50	$1.84	$2.47	$2.77	$2.21	$1.26	$1.97	$2.72
DIVIDENDS	**1.675**	1.60	1.40	1.40	1.40	1.25	1.20	1.20	1.20	1.43

This summary gives retroactive effect to mergers in order to show all years on a comparable basis. Financial position for 1964 was restated to reflect the change in consolidation, as explained on page 24. Earnings and prior years' financial positions were not restated, as there would be no material change.

(1) The agency businesses were sold to Roan Selection Trust Limited as of December 31, 1963.

(2) Based on total shares outstanding at the end of each year.

Field Work. *(Left) A drill sample of copper-bearing ore is taken during exploratory drilling at Ponce Mining Company site in Puerto Rico where AMAX completed exploration work last year.*

Exploration. *The search for new mineral properties takes AMAX exploration teams into all types of terrain. This rugged Rocky Mountain country near the Continental Divide was the site of geologic investigation to evaluate a molybdenum prospect.*

Exploration and Mine Development

Exploration and Mine Development Division

John Payne, Jr., President

AMERICAN METAL CLIMAX, INC.
New York, New York
Denver, Colorado
Sucursal del Perú,
Lima, Peru

AMAX EXPLORATION, INC.
New York, New York
Webb City, Missouri
Toronto and Vancouver, Canada

UNITED STATES METALS REFINING COMPANY
Sydney and Perth, Australia

MINE DEVELOPMENT
Ponce Mining Company, Inc.
(85% owned)
Utuado, Puerto Rico

■ **Summary** *AMAX, a mineral resources company, searches for new orebodies to replenish depleting mineral assets and to form a base for future growth. In 1965, the Company increased its exploration activities.*

In the last thirty years, the United States alone consumed more minerals than the entire world had previously used. Industrial growth demands ever increasing amounts of minerals.

To meet this need, the Exploration and Mine Development Division must locate, define, and develop new mineral sources that fit into AMAX's long range goals. Successful exploration requires years of sustained study and investigation by engineers and scientists highly-trained in many skills, as was the case with the recent AMAX discoveries of lead in Missouri, potash in Canada, copper in Puerto Rico and iron ore in Australia. Such investigations were expanded during 1965 from regional offices in New York and Denver; Vancouver and Toronto, Canada; Sydney and Perth, Australia; and Lima, Peru.

Because of the mounting demand for molybdenum, the search for new deposits of this metal remained a prime objective of AMAX's exploration program. Although most molybdenum exploration was concentrated in the Western United States and Canada, geological investigations took place throughout the world.

Exploration for new sources of copper and zinc was intensified in Eastern Canada and the United States. Potential deposits were also evaluated in other areas, including Latin America, Australia and the Middle East.

Investigations of possible new sources of potash, phosphate, bauxite and other metals and minerals were carried out in North America and other localities strategically situated to AMAX's present and future markets.

In 1965, the Division completed the preliminary engineering studies of the Mt. Newman iron ore deposits in Western Australia. It also contracted for the sale of 100,000,000 tons of iron ore to eight Japanese steel mills over a maximum period of 22 years. This contract and further steps for this project, owned jointly by AMAX and The Colonial Sugar Refining Company Limited of Australia, are subject to the availability of suitable financing.

Under a joint venture with Homestake Mining Company, development in Southeast Missouri of lead ore deposits containing by-product zinc was carried on during 1965 and this project was transferred to AMAX Lead & Zinc Division.

During the last half of 1965, field evaluation was completed on the Puerto Rican copper venture owned by Ponce Mining Company, Inc., in which AMAX holds an 85% interest. Engineering studies were nearing completion at year-end. Attention is now focused on final design of an ore beneficiation plant, smelter and acid plant, and tailing disposal facilities. This project is now being phased into the United States Metals Refining Company Division. Discussions continue with Puerto Rican authorities regarding various aspects of the mining lease and related matters.

Evaluation of the Company's potash reserves near Bredenbury, Saskatchewan, was completed in 1965 and an extensive deposit of high quality ore outlined. A Crown Lease and additional lands have been acquired and the project transferred to the Southwest Potash Division.

In addition to active exploration work, the Exploration Division increased its research efforts toward a greater understanding of the relationships of mineralization and geological environments.

The Division makes increasing use of the Company's modern scientific computer system recently installed at its New York headquarters. This computer aids in performing geologic and mining evaluations to determine ore reserves, pit design, mine haulage analysis and financial analyses of the mining operations and processing plants. Mining calculations that formerly took up to ten man-days can now be performed in a few hours.

Molybdenum and Associated Metals

New Record. *Ore is dumped into crusher at Climax. The mine produced its 200-millionth ton of ore in January 1966, nine years after first 100,000,000 tons was mined, and forty-nine years after initial operation.*

■ **Summary** *Sales and earnings for molybdenum and associated metals by the Climax Molybdenum Company Division reached record levels in 1965. Sales were 14% above 1964. Earnings increased even more, reflecting the high level of industrial activity in the United States and abroad, record molybdenum consumption and an increase in production from the Climax, Colorado, mine.*

Capital spending of approximately $25,000,000 in 1965 was almost double that of 1964. The expenditures went mainly to increase molybdenum production capacity through the development of the Urad mine in Colorado, and construction of facilities at Climax to recover oxidized molybdenum from the ore and to expand regular sulfide molybdenum production. Molybdenum conversion facilities are now being built in Europe. To broaden technological development, a new enlarged research facility was completed adjacent to the engineering campus of the University of Michigan, Ann Arbor.

MOLYBDENUM MARKET TRENDS

The rising rate of industrial activity and the growing use of molybdenum in iron, steel and other industries helped increase Free World consumption of molybdenum from 90,000,000 pounds in 1964 to an estimated record level of 100,000,000 pounds in 1965. In the United States, as steelmakers turned out a record 131,000,000 ingot tons, molybdenum consumption climbed 15% to 53,000,000 pounds from 46,000,000 pounds in 1964. Foreign consumption also reached a new high of 47,000,000 pounds.

Since 1953, the growth in Free World molybdenum consumption has averaged 7% annually—roughly 10% a year in foreign markets and 5% in the United States. During the last three years of general business expansion, moreover, the Free World market has grown an average 10% a year.

With the rapid growth in consumption, the supply of molybdenum has been very tight throughout the past year. Below normal inventory in the hands of consumers and convertors has led to molybdenum conservation practices including melting to the low side of the molybdenum specifications and full usage of all scrap. However, expanded production scheduled by Climax and other producers should improve the availability of molybdenum.

In the first quarter of 1965, the United States Government released 3,000,000 pounds of molybdenum from the national stockpile. This was in addition to the 8,000,000 pounds released in the last half of 1964. Climax purchased from its customers in 1965 approximately 2,600,000 pounds of the molybdenum concentrate released from the stockpile for conversion into product form and resale back to its customers. To meet the current shortage, Congress is considering a bill to release additional molybdenum from the national stockpile.

Climax's molybdenum prices, both in the United States and abroad, were unchanged during 1965.

MOLYBDENUM OPERATIONS

Climax Molybdenum Company—In 1965, the Climax mine again operated around the clock and seven days per week. A total of 14,350,000 tons of ore was mined, an average of about 39,900 tons per day and a new record. This total exceeded the previous high of 13,700,000 tons of ore drawn in 1964. Molybdenum production of 50,300,000 pounds also exceeded the previous record which was set in 1960, and was above 1964 production of 47,000,000 pounds.

Marking the first full year of operation, production from the Ceresco Ridge portion of the Climax orebody in 1965 increased to approximately 4,000 tons of ore per day. Besides expanding production capacity, Ceresco Ridge also added to the Climax mine's operating flexibility.

Proven ore reserves at the Climax mine, commercially mineable under present economic conditions, are conservatively calculated at 430,000,000 tons, roughly a 30-year supply, based on present scale of mining. The full extent of

	Estimated Free World Molybdenum Consumption			AMAX Production of Molybdenum
	United States	Foreign	Total	At Climax Mine
	(Millions of pounds of molybdenum)			
1965[1]	53	47	100	50
1964[2]	46	44	90	47
1963[2]	42	37	79	47
1962	38	32	70	33[3]
1961	35	41	76	48

(1) Preliminary
(2) Revised
(3) Production limited by strike

NOTE: These are AMAX estimates of molybdenum consumption. There can be considerable fluctuation, which we are able to identify only in part, in the amounts which are held in conversion and distribution pipelines between mine producers and ultimate consuming industries, particularly overseas.

Uses of Molybdenum in the United States by Major Industrial Categories

	1965
Alloy steel *(other than stainless and tool steels)*	48%
Stainless steel	17
Tool steel *(including high-speed steel)*	9
Cast Iron *(other than steel-mill rolls)*	7
Steel-mill rolls	5
Chemicals, catalysts and pigments	5
Molybdenum metal	3
High-temperature alloys	3
Miscellaneous	3
	100%

SOURCE: Bureau of Mines Reports

the orebody has not been defined at depth. With additions to proven reserves during 1965, total ore reserves at year-end remain virtually unchanged from the year before.

Negotiations were successfully concluded in 1965 with the three unions at Climax for new three-year labor contracts. The settlements provide for wage increases, improved pension benefits, additional holidays, and other improved employee benefits. A primary objective of the Company is to develop and maintain the best possible employee and community relations.

NEW RECORD AT LANGELOTH

Conversion operations in 1965 at the Langeloth, Pennsylvania, plant were at a record level, surpassing the peak operating rate of the World War II period. In addition to increases in AMAX's production, molybdenite concentrate purchased by some of its customers from the government stockpile was converted into product form in the first half of the year. Late in 1965, work commenced on a United States Government contract to upgrade approximately 3,500,000 pounds of molybdenite concentrate in the national stockpile to ferromolybdenum.

Principal products produced at Langeloth are technical molybdic oxide and ferromolybdenum for the iron and steel industry, pure molybdic oxide and ammonium molybdate for the chemical and refractory metals industries, and MOLYSULFIDE® for the lubricants industry. In 1965, some $1,000,000 was spent to expand the capacity for pure molybdic oxide to meet growing needs in such uses as metallic molybdenum, molybdenum catalysts and superalloys.

REFRACTORY METALS

Sales of refractory metal products were higher in 1965 than in 1964. Military applications for arc-cast molybdenum declined because of reduced missile production. However, industrial customers accounted for increased civilian demand for arc-cast molybdenum mill products.

CLIMELT® TZM alloy, an arc-cast molybdenum alloy containing small amounts of titanium and zirconium, found increased application in tooling for die casting aluminum. Several successful applications of this alloy for the dies used in the pressure casting of brass were reported in the United States and Europe. Another Climax-developed alloy, containing 70% molybdenum-30% tungsten, was in greater demand for components to handle molten zinc in processors' and zinc die casting plants.

Throughout the year there was strong demand for Climax's high density, gas-free pellets of pressed and sintered molybdenum powder. This product was developed for vacuum-melted, low-iron superalloys used in higher powered aircraft gas turbines.

The refractory metal plant, located at Coldwater, Michigan, began the production of powder metallurgy molybdenum mill products in 1965.

EXPANSION OF FACILITIES AND SERVICES

To provide molybdenum for the growing Free World market, Climax has a major expansion of its production capacity underway. The current capital budget provides for estimated expenditures of approximately $80,000,000 over the five years 1965-69.

During 1965, construction continued on a new plant at Climax which will utilize a hydrometallurgical process to recover oxidized molybdenum from the ore for the first time. This process was developed by Climax engineering and research staffs after several years of extensive research and pilot plant work. About 5,700 tons of current ore a day, containing a major part of the oxide ore, will be treated for the recovery of the oxidized molybdenum after the normal sulfide molybdenum recovery process has been completed. Production will begin in the second quarter of 1966 at an annual rate of about 3,000,000 pounds of molybdenum.

Two additional mill units at Climax, scheduled to go on stream in April and October 1966, will improve recovery as well as provide for the higher tonnage rates expected in coming years.

Development continued at an accelerated rate at the

Climax mine on a third mining level. This lower level is scheduled for initial production in the early 1970's, when the Phillipson level, from which production began in 1929, will be nearly mined out.

NEW URAD MINE

Seventy miles northeast of Climax, $25,000,000 is being spent to develop the Urad molybdenum mine in Colorado, scheduled for start-up in mid-1967. Difficult engineering and logistical problems due to the surface topography at the mine site had to be overcome. Construction of complex flood control and water diversion facilities was virtually completed during 1965. With production of up to 7,000,000 pounds of molybdenum annually expected from Urad, a new molybdenum source will be available to meet growing demand.

As announced last summer, further drilling has intersected another molybdenite ore zone at Urad below and to the side of the ore body now being readied for mining. Further work is required to determine the full extent of this new ore zone.

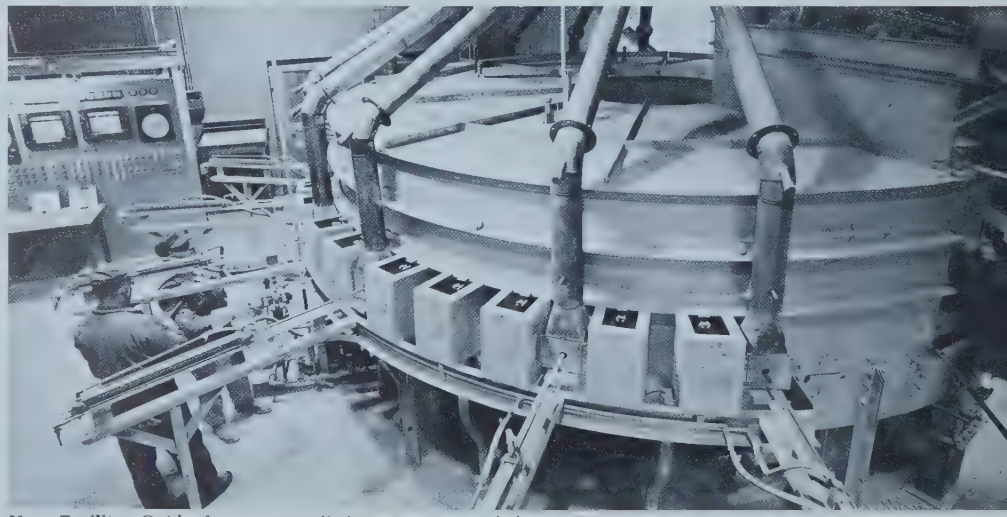
NEW PLANT IN ROTTERDAM

In past years, Climax sales to Europe have largely been of unprocessed concentrate. Now, construction of a $5,000,000 conversion plant in Rotterdam, Holland, will enable Climax to convert molybdenum concentrate into finished products for sale directly to European consumers. The plant, scheduled for start-up operation in April 1966, will have an annual capacity to convert approximately 12,000,000 pounds of concentrate to molybdenum products. Technical and commercial services similar to those offered in the United States will be provided.

MARKET DEVELOPMENT

To encourage the growth and effective use of molybdenum and molybdenum-containing materials, Climax maintains technical development offices—staffed with trained materials engineers—throughout the United States and in Zurich, London, Paris and Tokyo.

New Mine. *Urad molybdenum mine now being developed in Colorado is scheduled to commence production in mid-1967.*



New Facility. *Oxide furnace installed in 1965 expanded capacity for producing pure molybdic oxide at Langeloth.*

Molybdenum usage is broad-based. Molybdenum-containing materials—largely iron and steel—are used throughout industry, especially in the aircraft, automotive and truck, chemical, construction, machinery, petroleum and power industries. Materials technology is evolving rapidly. Designers and builders of modern equipment and structures call for materials of higher strength and toughness with greater resistance to wear, corrosion and elevated temperatures. Molybdenum imparts these characteristics to the materials with which it is alloyed. Demand has been especially strong for quenched-and-tempered high strength structural steels, for stainless and heat resistant steels, for gas turbine superalloys and for nodular cast iron rolling mill rolls, all of which contain molybdenum.

Outside the alloying field, an active new molybdenum demand has developed in hydrocracking catalysts for the petroleum industry and in catalysts used in a new process for making acrylonitrile. Use of molybdenum disulfide in lubricants continues to grow.

RESEARCH

In 1965, Climax transferred its research laboratory from Detroit to a modern, three-building complex in Ann Arbor, located on a 30-acre site bordering the University of Michigan's expanding engineering campus. The new facilities have allowed the addition of several research metallurgists and chemists and the intensification of studies of molybdenum's potential in materials technology, as well as research into new products and improvement in production processes.

Through the interaction of ideas and disciplines between metallurgist and chemist, the Company can help solve the more demanding technical problems and create new uses not only for the metal itself, but for the more durable end-products that molybdenum makes possible. For instance, research into the contribution of molybdenum to the corrosion resistance of large tonnage grades of stainless steels should extend this market. Molybdenum chemicals are proving quite effective as corrosion inhibitors in many common industrial solutions. Molybdates are being used as corrosion inhibitive primer pigments to protect base metals from atmospheric corrosion.

New Laboratory. *At Climax research laboratory in Ann Arbor, Michigan, basic and applied research is carried out on uses of molybdenum and other metals as well as the development of new products and processes.*

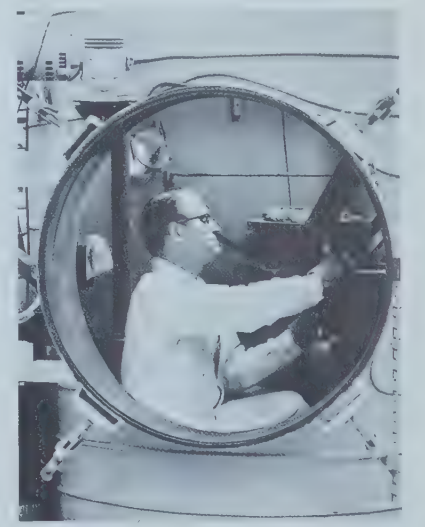
The new laboratory was also used in 1965 to melt and extrude high-strength molybdenum-base alloys to fill development requirements for stronger refractory metals. Research on tungsten-base alloys produced materials exhibiting the highest strengths yet known at temperatures of 3,500 to 4,000 degrees F.—well above the target strengths set by the Materials Advisory Board of the National Academy of Sciences.

Through alloy development, the laboratory also extended the temperature limit for stable structural grades of cast iron as high as 1,500 degrees F.

Lubricant research continued to prove benefits from MOLYSULFIDE® in gear oils and motor oils. New organo-molybdenum compounds were developed which are soluble in oils, and such compounds show promise as lubricant additives.

TUNGSTEN

Production of by-product tungsten at the Climax mine in 1965 climbed to 1,180,000 pounds, up slightly from the 1,150,000 pounds produced in 1964. Tungsten prices im-



Modern Equipment. *Vacuum chamber at the Ann Arbor laboratory for the melting and heat treating of special alloys.*

proved considerably over those of 1964, and tungsten profits, as a result, were up.

Canada Tungsten Mining Corporation Ltd. (35% AMAX-owned)—In the Northwest Territories of Canada, the tungsten mine operated by Canada Tungsten Mining Corporation Ltd. completed its first full year of operation after resumption of production in September, 1964. During the year, mill recovery improved and tungsten sales kept pace with production. With the bulk of Canada Tungsten's sales satisfying long-term contracts at fixed prices during 1965, the effect of the upward movement of prices on the company's profits was limited.

URANIUM AND VANADIUM

Climax Uranium Company—Sales of vanadium and uranium rose appreciably in 1965, along with earnings. Vanadium sales increased substantially, owing to expanded industrial activity and industry's greater ferroalloy requirements. The Company's current contract with the Atomic Energy Commission for the delivery of uranium concentrate expires at the end of 1966. The A.E.C. gave domestic uranium producers the option of stretching out through 1968 the delivery of uranium which would otherwise be delivered by the end of 1966 and making additional deliveries at a reduced price in 1969 and 1970, equal to the amounts deferred. But after a careful review of operating and economic considerations, AMAX decided in 1964 against extending deliveries to the A.E.C. beyond 1966. The Company is now studying alternative uses for the Grand Junction, Colorado, facility after 1966.

ZIRCONIUM, HAFNIUM AND TITANIUM

Carborundum Metals Climax, Inc. (50% AMAX-owned)—In June, 1965, AMAX (through its subsidiary—the Climax Molybdenum Company of Michigan) and The Carborundum Company formed a jointly-held company, Carborundum Metals Climax, Inc., for the production and marketing of zirconium, hafnium, titanium and their alloys. The nucleus of the business was Carborundum's production facilities for zirconium and hafnium in Akron, New York, and Parkersburg, West Virginia. AMAX invested approximately $3,000,000 for a 50% equity. Carborundum Metals Climax is now building fabricating facilities for the production of rolled products and seamless tubing.

The long-term outlook for the reactive metals — zirconium, hafnium and titanium—appears promising. Because of zirconium's low thermal neutron absorption and its excellent resistance to corrosion by water, the metal is gaining an ever-wider market as a cladding material in both Navy reactors and commercial nuclear power plants. Hafnium is used principally in reactor control rods. Titanium's use is concentrated in the aircraft, defense and chemical industries.

Climax Molybdenum Company Division

Horace A. Sawyer, Jr., President

CLIMAX MOLYBDENUM COMPANY
NEW YORK, NEW YORK

WESTERN OPERATIONS
Golden, Colorado

MOLYBDENUM MINING
Climax, Colorado
Urad, Colorado

MOLYBDENUM CONVERSION
Langeloth, Pennsylvania
Rotterdam, Holland

REFRACTORY METALS PRODUCTION
Coldwater, Michigan

REFRACTORY METALS SALES AND SERVICE
Ann Arbor, Michigan

RESEARCH
Ann Arbor, Michigan
Golden, Colorado

URANIUM AND VANADIUM MINING AND MILLING
Climax Uranium Company
Grand Junction, Colorado

DOMESTIC SALES AND SERVICE
Climax Molybdenum Company
New York, Chicago, Dayton, Denver, Detroit, Los Angeles, Pittsburgh

INTERNATIONAL MARKETING AND DEVELOPMENT
Climax Molybdenum Company Limited
London, England
Climax Molybdenum S.A.
Paris, France
Climax Molybdenum Company
Zurich, Switzerland
Climax Molybdenum Development Company (Japan), Limited
Tokyo, Japan

INTERNATIONAL SALES SERVICE
Equipamentos Industriais EISA Ltda.
São Paulo, Brazil
Railway & Power Engineering Corporation Limited
Montreal, Canada
Nichibei Boeki Company, Limited, Tokyo, Japan
Samuel Osborn (South Africa) (Pty.) Limited
Johannesburg, South Africa
Metal Distributors Limited
Bombay, Calcutta, Madras and New Delhi, India

Aluminum

■ **Summary** *1965—the fourth year of AMAX's entry into the aluminum business—was marked by increased sales, stable profits and a larger commitment in primary aluminum. Sales of aluminum products increased to 36% of total AMAX sales.*

Prices for aluminum fabricated products strengthened modestly over the year, but profit margins remained under pressure because of rising raw material and labor costs.

AMAX Aluminum Company was formed to consolidate AMAX's expanding aluminum activities.

MARKET TRENDS IN ALUMINUM

In 1965, the United States aluminum industry had its fourth straight year of record shipments as consumers took about 4,000,000 tons of ingot and mill products, a 12.4% gain. Domestic production of primary aluminum rose 7.7% to a record 2,750,000 tons.

Prices for fabricated aluminum products strengthened modestly in 1965, but profit margins remained under pressure because of rising raw material and labor costs. Although prices and, to a certain extent profits, improved during 1965, return on investment in the aluminum industry in the United States remained low. If demand for aluminum products continues to grow at the current rate, the capital investment required to keep pace with demand must double within the next ten years. Without higher prices to increase the return on investment, it will be difficult for the industry to find funds to finance this expansion.

AMAX GROWTH IN ALUMINUM

In 1965, sales of AMAX aluminum products rose 23%. Earnings, however, did not rise comparably. As a group, the fabricating operations were profitable, but some losses occurred due to low margins and non-recurring charges.

Innovation. *Continuous cast aluminum sheet produced by Hunter-invented process helps make Hunter Engineering Company the nation's leading supplier of prefabricated aluminum components to mobile-home and trailer industry. Broad Hunter product line shown in photo ranges from irrigation tubing to aluminum processing machinery.*

AMAX ALUMINUM COMPANY

To consolidate AMAX's expanding aluminum activities which now include 30 fabricating plants and secondary smelters, 23 of which are located in the United States, the AMAX Aluminum Company Division was formed in July. The new Division coordinates the production and marketing operations of the Company's aluminum enterprises and its 50% share of the Intalco aluminum reduction plant. Following are the highlights of the Company's aluminum businesses during the past year:

Kawneer Company, Inc.—This producer of architectural and industrial aluminum products experienced a record sales volume in 1965. Profits of some products continued under pressure because of increased material and labor costs. Two Kawneer plants were built in 1965. One, located in Bloomsburg, Pennsylvania, produces architectural products. The other, in Carrollton, Kentucky, produces appliance and automotive trim parts.

Hunter Engineering Company—Sales of Hunter Engineering reached record highs, but while prices improved somewhat in the second half of 1965 the higher labor and material costs also affected some of this Division's profits. Start-up costs on new product lines and new equipment also had an adverse effect upon profits. Hunter Engineering opened new outlets for its building products and started to produce aluminum plate by its own continuous casting process.

Apex Smelting Company—Apex Smelting enjoyed one of its best years in volume and in profits, reflecting the high level of business in the automotive and consumer goods industries and more efficient production procedures.

Johnston Foil Company—In January, 1966, AMAX acquired the Johnston Foil Company, a producer of aluminum, tin and lead foil located in St. Louis, Missouri.

International Division—An International Division was formed late in 1965 to facilitate the coordination and control of AMAX's foreign aluminum operations by placing them under a single management responsibility.

During 1965, AMAX in association with American & Foreign Power Company, Inc. formed Alumex, S.A. de C.V. in Mexico for the production of aluminum sheet and sheet products. Construction of a plant began early in 1966, and first production is anticipated around the end of the year. In Mexico, the International Division also includes the wholly-owned Kawneer de México, S.A. de C.V.

In Australia, AMAX purchased a 53% interest in Wormald Brothers Aluminium Company, a producer of architectural aluminum products located in Merrylands, New South Wales. The company, now under the name of Kawneer Company Pty. Limited, plans to expand production in 1966.

AMAX also holds majority interest in the Hunter Aluminium Company Limited (U.K.) and shares in Showa Kawneer K.K. (Japan). Other wholly-owned international interests include Kawneer GmbH (Germany) and Kawneer Company (U.K.) Limited and the export sales company, Kawneer International, Ltd.

PRIMARY ALUMINUM

Intalco Aluminum Corporation (50%-owned)—In view of the sharply growing requirements for primary aluminum by its own fabricating divisions, AMAX agreed with its partners, Pechiney and the Howmet Corporation, to double the size of the primary aluminum reduction plant being built near Bellingham, Washington. The first potline, with a capacity of about 76,000 tons per year, is expected to be on stream in mid-1966. A second potline, also of about 76,000 tons per year capacity, is scheduled to be in operation in early 1967. Financing for both potlines was largely obtained by long-term loans. Total cost of the Bellingham installation is expected to exceed $100,000,000.

Quality. *Apex aluminum—alloyed to exacting customer specifications—is found in hundreds of functional and decorative parts in products ranging from automobiles to appliances.*

Growth. *Intalco aluminum reduction plant near Bellingham, Washington, will go into operation in mid-1966 and will be a major source of primary aluminum ingot.*

ARCHITECTURAL CONCRETE

AMAX Concrete—Sales by AMAX's concrete operations and by its licensees continued to rise during 1965, but the business still has not contributed to AMAX earnings. During the year, the Schokbeton Products Corp. subsidiary added three licensees in the Western United States and Canada. Schokbeton licensees now serve most of the United States and Canada.

Concrete Division

New York, New York

Schokbeton Products Corp.,
New York, New York
Crest-Schokbeton Concrete, Inc.
Lemont, Illinois
Eastern Schokcrete Corp.
Bound Brook, New Jersey
Worcester, Massachusetts
Brandywine, Maryland
Precast/Schokbeton, Inc.
Kalamazoo, Michigan
Mabie-Bell Schokbeton Corp.
Greensboro, North Carolina
Peachtree City, Georgia

Style. *Kawneer, a leader in architectural aluminum products—doors, store fronts, curtain walls—produced the components for the exterior of this thirty-story office building rising in New York City.*

AMAX Aluminum Company Division

Stephen A. Furbacher, President

Kawneer Company, Inc.

Niles, Michigan

Charles B. Huizenga, President

ARCHITECTURAL ALUMINUM PRODUCTS
Niles, Michigan
Richmond, California
Atlanta, Georgia
Bloomsburg, Pennsylvania
Kawneer Company Canada Limited
Toronto, Canada
Warehouses
Boston, Carlstadt (New Jersey), Chicago, Cleveland, Dallas, Los Angeles, Miami, Seattle, Montreal (Canada)
District Sales Offices
Atlanta, Boston, Chicago, Cleveland, Dallas, Kansas City, Los Angeles, New York, Niles, Richmond (California), Seattle

INDUSTRIAL ALUMINUM PRODUCTS
Cynthiana, Kentucky
Carrollton, Kentucky

ALUMINUM EXTRUSIONS
St. Charles, Illinois

MACHINE PRODUCTS
South Bend Screw Products, Inc.
South Bend, Indiana

Hunter Engineering Co.

Riverside, California

Richard S. Brill, President

ALUMINUM SHEET AND OTHER MILL PRODUCTS
Riverside, California
Decatur Aluminum Company, Inc.
(50% owned)
Decatur, Alabama

MACHINERY AND EQUIPMENT
Riverside, California

MOBILE HOME ALUMINUM SHEET
Riverside, California
Bloomsburg, Pennsylvania
Dayton, Ohio
Elkhart, Indiana
Marshfield, Wisconsin
Ocala, Florida
Tulsa, Oklahoma

ALUMINUM BUILDING PRODUCTS
Riverside, California
Consolidated General Products, Inc.
Evansville, Indiana

Apex Smelting Co.

Chicago, Illinois

Fritz Nussbaum, President

SECONDARY ALUMINUM, ZINC-BASE DIE-CAST ALLOYS

TECHNICAL SERVICES & RESEARCH
Chicago, Illinois
Cleveland, Ohio
Long Beach, California

SILICON METAL
National Metallurgical Corporation
Springfield, Oregon

Johnston Foil Company

St. Louis, Missouri

Joe Roberson, General Manager

International Division

New York, New York

Robert Marcus, General Manager

Kawneer de México, S.A. de C.V.
Mexico City, Mexico
Kawneer G.m.b.H.
Rheydt, Germany
Kawneer Company (U.K.) Limited
Aston Clinton, Bucks., England
Kawneer Company Pty. Limited
Merrylands, N.S.W., Australia
Showa Kawneer K.K.
(45% owned)
Tokyo, Japan
Alumex, S.A. de C.V.
(40% owned)
Puebla, Mexico
Hunter Aluminium Company Limited
Aston Clinton, Bucks., England

Intalco Aluminum Corporation (50% owned)

David Mayers, President

ALUMINUM SMELTING
(Under construction)
Ferndale, Washington

Base Metals

Pollution Control. *New baghouse functions like a giant vacuum cleaner and traps 99% of the dust particles coming from U.S.M.R.'s copper smelter in Carteret, New Jersey. Picture shows bottom of baghouse where captured dust particles contribute to higher metal recoveries. The new installation earned the plant a good citizenship award for air pollution control.*

■ **Summary** *Demand for base metals was at record levels throughout the year. The United States Metals Refining Company's copper smelter and refinery operated at full capacity and set a new production record. AMAX earnings from copper exceeded the favorable results of 1964.*

AMAX Lead & Zinc Division was formed to consolidate the Company's activities in lead, zinc and cadmium. The Blackwell Zinc smelter and refinery operated about at capacity throughout the year as United States and foreign demand for zinc continued heavy. Construction began on the Southeast Missouri lead complex.

Dividend income from AMAX's investments in other base metal producing companies increased substantially.

MARKET TRENDS IN COPPER

Demand for copper both in the United States and abroad reached an all-time high during a year when adverse factors affected supplies. Although world mine output showed a net gain over 1964, the increase was insufficient to satisfy Free World requirements, largely because of sporadic disruptions in production in some copper-producing countries. During 1965, the producers' prices for refined copper increased from 34¢ to 36¢ per pound in the United States and by early 1966 foreign producers' prices had advanced to 42¢ per pound. The extent of the copper shortage, actual or threatened, was reflected in certain other market prices such as the London Metal Exchange which, at year-end, exceeded 70¢ per pound.

The United States Government released 100,000 tons of copper from stockpile during early 1965 and in November began arranging for disposal of an additional 200,000 tons. The Government also announced that export controls would be put into effect early in 1966 and that Congress would be asked to suspend the duty on imports.

United States Metals Refining Company—Earnings of AMAX's copper business in 1965 exceeded the favorable results for 1964. The continued demand for copper was reflected in capacity operations at the United States Metals Refining Company's Carteret, New Jersey, plant, which produced 232,000 tons of copper, a gain of 10% over 1964. Production of by-product gold and silver was slightly below 1964 levels.

The increase in copper production was made possible by uninterrupted operation of all units at maximum capacity and improvements in operating practices and technology. U.S.M.R. continued to broaden both its technical liaison with customers and its sales program to support the expanding variety of applications for the Division's copper products. The year was marked by a substantial growth in production and applications of AMAX's OFHC® copper, a considerable tonnage of which was supplied for use in the new United States 25-cent pieces.

Long range research continues to center on development of new special-purpose coppers and alloys, improved process technology and increased by-product recovery. During the year, a new baghouse was erected at a cost exceeding $500,000 to filter smelter converter gases and contribute to higher metal recoveries. A community award was made to the plant for its accomplishment in reducing air pollution.

Heath Steele Mines Limited (75% AMAX-owned)—Operations of this lead-zinc-copper mine and milling operation in New Brunswick, Canada, benefited by high base metal prices in 1965. Earnings were above 1964, though production remained essentially at the 1964 level and there was a slight downward variation in ore grade. Metallurgical recovery and operating efficiency continued to improve. In 1965, a $2,800,000 shaft-sinking and mine development program was launched to double mine production to 600,000 tons of ore per year by 1968, and to facilitate the development of known mineralized zones at depth. The planned increase in Heath Steele mine production will result in full utilization of installed mill capacity, approximately one-half of which is now used to treat ore for others.

United States Metals Refining Division
John Towers, President

UNITED STATES METALS REFINING COMPANY
CARTERET, NEW JERSEY
COPPER SMELTING AND REFINING, OXYGEN-FREE COPPER, COPPER POWDER
SALES AND SERVICE
New York, New York

HEATH STEELE MINES LIMITED
NEWCASTLE, N. B., CANADA
LEAD-ZINC-COPPER MINING AND MILLING

PYRON COMPANY
NIAGARA FALLS, NEW YORK
IRON POWDER

AMAX Lead & Zinc Division
Albert E. Lee, Jr., President

BLACKWELL ZINC COMPANY, INC.
BLACKWELL, OKLAHOMA
ZINC SMELTING AND REFINING, CADMIUM
SALES AND SERVICE
New York, New York

AMAX LEAD COMPANY OF MISSOURI

MISSOURI LEAD SMELTING COMPANY
(50% owned)

MISSOURI LEAD OPERATING COMPANY
SALEM, MISSOURI
LEAD AND ZINC MINING, LEAD SMELTING AND REFINING
SALES AND SERVICE
New York, New York

New Lead Smelter. *Design of the first new lead smelter in the United States in over 40 years appears in drawing of AMAX-Homestake smelter scheduled for completion in late 1967.*

AMAX METAL POWDERS

Record sales and earnings were achieved for the fourth consecutive year. AMAX, one of the leading producers of iron and specialty powders at its Pyron plant in Niagara Falls, New York, also markets electrolytic copper powders and other powders produced at U.S.M.R.'s Carteret, New Jersey, plant. Capacity at Niagara Falls was expanded during the year to meet growing customer demand for Pyron's iron powders.

AMAX LEAD & ZINC DIVISION

The Company's lead, zinc and cadmium activities were consolidated in the AMAX Lead & Zinc Division, formed in November. Responsibility for the activities of the Blackwell Zinc Company, Inc., operation of the Missouri lead project and marketing of the products of these operations rests with this Division.

MARKET TRENDS IN ZINC

Zinc sales in 1965 continued strong. U.S. consumption increased 11% to a record 1,340,000 tons, while Free World consumption rose 3.4% to an estimated 3,700,000 tons. By executive action of the Federal Government, the seven-year-old system of quotas restricting lead and zinc imports was removed last fall. Demand remained strong and little immediate effect on the domestic supply situation is expected.

Blackwell Zinc Company, Inc.—A strong domestic demand for zinc kept the Blackwell plant operating at substantially full capacity throughout the year. Slab zinc production rose to 91,000 tons from 77,000 tons in 1964, but heavy customer demand kept metal inventories at a minimum. Besides its own production, AMAX also acted as distributor for 11,000 tons of the 219,000 tons of zinc released from the national stockpile.

The Blackwell smelter is also a major producer of cadmium metal and oxide. In 1965, Blackwell's cadmium production was 1,250,000 pounds, little changed from 1964. Despite a weaker market, sales were well maintained.

AMAX IN LEAD

AMAX Lead Company of Missouri—Construction has begun on the new, fully integrated $35,000,000 lead mine, mill and smelter complex in Southeast Missouri. The facilities, jointly owned through subsidiaries by AMAX and the Homestake Mining Company, are in a new mining district that promises to become the principal source of primary lead production in the United States and one of the major producing areas of the world.

When the project goes into operation late next year, it will include: a mine operating to a depth of 1,400 feet to extract ores averaging 4% to 6% combined lead-zinc content; a highly automated processing plant to produce lead and zinc concentrates; and the first lead smelter to be built in the United States in over 40 years. The 100,000-ton-a-year

smelter, located 2½ miles from the mine site, will produce some 50,000 tons of refined pig lead a year for AMAX and Homestake, and another 50,000 tons a year on a toll basis for two other companies. About 50,000 tons a year of by-product sulphuric acid will also be recovered.

Indicated ore reserves in the areas explored by drilling were re-estimated last Fall to amount to 38,000,000 tons. Two circular shafts, 18 feet in diameter, are being sunk and the mine, mill and related surface facilities are expected to begin production late in 1967.

The St. Louis-San Francisco Railway Company is building a new 33-mile line into the area which will serve both mine and smelter.

BASE METAL INVESTMENTS

Because of increased world demand and the high prices prevailing for copper, lead, and zinc, the mining companies in which AMAX holds important minority positions prospered in 1965, and AMAX dividend receipts during the year rose from $11,650,000 in 1964 to $20,830,000. (See Table, this page.)

In the United States, the Copper Range Company, in which AMAX holds a 17% interest, declared a small dividend in 1965, its first since 1960.

The mining enterprises in Africa in which AMAX has investments operated without interruption during their 1965 fiscal years and established new records in production and sales. Their dividend payments increased substantially.

Dividend income more than doubled from AMAX's 29% holding in Tsumeb Corporation, a copper-lead-zinc producer in the Territory of South West Africa, and from AMAX's 19% interest in O'okiep Copper Company, which operates in the Republic of South Africa. Palabora Mining Company, in which AMAX holds directly and indirectly an 8% interest, operates a new copper mine and smelter also located in the Republic of South Africa.

In February, 1966, Palabora poured its first copper, and production is expected to reach full capacity of 80,000 tons a year by late summer.

Dividends also increased from AMAX's 46% interest in Roan Selection Trust in the Republic of Zambia.

The copper companies operating in Zambia pay mineral royalties to the Government of that country, calculated on the basis of the London Metal Exchange price for copper, whereas the Zambian producers, and other producers, are at present selling at a substantially lower price in the long-run interest of the copper industry.

Discussions with the Zambian Government to change the basis for payment of these royalties to a percentage of company profits have so far not achieved that objective, despite representations that the present basis penalizes the companies and the Zambian economy, since it acts as a deterrent to future expansion of the industry.

In Mexico, Minera Frisco, S.A., a lead-zinc-silver mining company in which AMAX holds an 18.5% interest, also substantially increased its income in 1965. However, the dividend rate in 1965 was limited to the rate paid in 1964 out of 1964 earnings.

In July, AMAX sold its remaining 49% interest in Metalúrgica Mexicana Peñoles, S.A. to the Mexican group that originally acquired a 51% share of the company in 1961. Proceeds from the sale, after United States taxes, make added resources available for AMAX's expansion program. Before the sale, 1965 dividends from Peñoles were higher than in the same period in 1964, reflecting increased earnings of the company.

Otherwise, AMAX's holdings have not changed significantly from 1964. A complete list of holdings as of December 31, 1965, can be found on page 4.

Dividends from AMAX Investments in Other Companies

(in thousands)

	1965	1964
In Africa		
Roan Selection Trust ..	$ 8,705	$ 6,085
Tsumeb Corporation ...	7,505	3,000
O'okiep Copper Company	3,620	1,695
In Mexico		
Metalúrgica Mexicana Peñoles	625	390
Minera Frisco	150	420
Miscellaneous	225	60
Total before U. S. tax	$20,830	$11,650
Total after U. S. tax(1)	$18,030	$11,255

(1) Tax payments in the U. S. on dividends were decreased for 1964 and increased for 1965 by retroactive changes in foreign tax rates.

Agricultural Chemicals and Petroleum

Agricultural Chemicals. *Truck crops in the Florida Everglades are fertilized by aerial application of nitrate of potash. Southwest Potash is the sole producer of agricultural nitrate of potash in the United States.*

■ **Summary** *The AMAX Chemical and Petroleum Division was formed in November to coordinate the Company's activities in petroleum, fertilizer materials and associated chemicals. AMAX Petroleum Corporation and Southwest Potash Corporation presently make up this new division.*

World consumption of potash rose again in 1965, and Southwest Potash produced and sold record amounts of both muriate and nitrate of potash. However, net income slipped below that of the prior year due to completion of a crude ore sales contract in 1964.

Production of oil and gas rose slightly, and exploration continued in the North Sea.

AMAX IN CHEMICALS

Southwest Potash Corporation—Due partly to expansion of existing operations and partly to new mines, the world potash shortage of 1964 was considerably relieved in 1965. Operating at capacity, North American producers delivered a record 4,329,000 tons of K_2O in 1965, a gain of 11% over 1964. Domestic deliveries rose 8%, and export shipments 23%. Apparent North American consumption of K_2O, including imports, also reached a new high of 3,563,000 tons, 7% above 1964. Sharing in the increase, Southwest Potash produced and sold record quantities of muriate and nitrate of potash.

At the Company's Carlsbad, New Mexico, facilities a milling expansion of 17% and increased granulation capacity were completed ahead of schedule in March, 1965. As a result, the Carlsbad mine and mill produced nearly 1,000,000 tons of muriate, a new record. Muriate shipments and income also rose to a new high.

At Vicksburg, Mississippi, the nitrate of potash and chlorine plant operated at design capacity for the year. Total nitrate sales were more than double those of 1964. Addition of a granular nitrate of potash to the product line contributed significantly to this improvement. For the first time, a significant tonnage of agricultural nitrate of potash was exported, and domestic deliveries of technical nitrate

AMAX Chemical and Petroleum Division

Paul R. Schultz, President

AMAX PETROLEUM CORPORATION
TULSA, OKLAHOMA
Paul R. Schultz, President
Denver, Colorado; Houston, Texas; Casper, Wyoming; Calgary, Canada
Amax Petroleum (U.K.) Limited, London, England

SOUTHWEST POTASH CORPORATION
NEW YORK, NEW YORK
Fred H. Stewart, President
DOMESTIC SALES AND SERVICE
Southwest Potash Corporation
New York
POTASH MINING
Carlsbad, New Mexico
POTASSIUM CHEMICALS AND CHLORINE
Vicksburg, Mississippi

INTERNATIONAL SALES AND SERVICE

Latin America	
Argentina	Gonzalez, Castleton & Shaw, Buenos Aires
Brazil	Este Asiático, São Paulo
Chile	Cameron Reid Hnos., Santiago
Mexico	Metalúrgica Mexicana Penõles, S.A., Mexico City
Uruguay	Campanela & Paz Ltda., Montevideo
Venezuela	Herbert A. H. Behrens de Venezuela, Caracas
Europe	
Belgium, Holland, Ireland, Norway, United Kingdom	Ametalco Limited, London
West Germany	Ametalco G.m.b.H., Frankfurt
Switzerland	Ametalco S.A., Geneva
France, Portugal, Spain	France-Metaux S.A., Paris
Sweden, Finland	Sedin and Schmidt A.B., Gothenburg
Italy	Mario Alberti S.p.A., Milan
Greece	Theodose S. Sarantis, Athens
Africa and South East Asia	
South Africa	Dowson & Dobson Limited, Johannesburg
India	Metal Distributors Limited, Calcutta
The Philippines	Amon Trading Corporation, Manila
Far East and Oceania	
Japan	Nichibei Boeki Company, Limited, Tokyo
South Korea	Taipyong Company, Ltd., Seoul
Taiwan	William Hunt & Co. (Int.) Inc., Taipei
Australia	A.G.C. Chemicals Pty. Ltd., Richmond
New Zealand	A.G.C. Chemicals New Zealand, Auckland

Drilling in the Rockies. *AMAX Petroleum Corp.'s recent wildcat discovery well, located in the Big Horn Basin of Wyoming.*

of potash for industrial uses rose sharply. Although operations at Vicksburg in 1965 represented an improvement over 1964, margins were still unsatisfactory.

In Saskatchewan, Canada, Southwest Potash completed its potash solution mining tests at Watrous and exploration drilling of the Bredenbury property, where a sizeable orebody has been indicated. Work is now in progress to complete the necessary studies prior to a decision whether to bring the Bredenbury property into production as a conventional underground mine.

AMAX IN PETROLEUM

AMAX Petroleum Corporation—AMAX operations in oil and gas expanded in 1965. Production averaged 14,000 barrels per day before oil payments and about 9,000 barrels per day after oil payments, slightly higher than in 1964.

Capital expenditures for the year reached $5,200,000. Over half the total was spent for development of wells and waterfloods. Successful primary development wells were drilled in Louisiana, Montana, New Mexico, Oklahoma, Wyoming and Canada. AMAX continued development of several waterfloods in the United States and Canada, including the South Salt Creek unit in Wyoming.

In its exploration program, AMAX Petroleum participated in the drilling of 25 wildcat wells, which yielded discoveries in Canada and Oklahoma. Through acreage or dry hole money contributions, AMAX aided in the drilling of another 33 exploration wells, resulting in seven discoveries on acreage adjoining AMAX-owned land.

AMAX Petroleum and its partners carried out extensive seismic explorations in the North Sea, under exploration and production licenses granted by the United Kingdom in 1964. AMAX and a group of associates also undertook a sizeable seismic exploration in the Netherlands area of the North Sea, with the expectation that the Netherlands Government will make offshore exploration licenses available in the near future.

AMERICAN METAL CLIMAX, INC. *and its Consolidated Subsidiaries*

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1965 AND 1964

	1965	1964
Sales	$475,020,000	$438,170,000
Cost of sales, exclusive of items shown separately	355,080,000	337,100,000
Depreciation and depletion (page 24)	17,480,000	15,990,000
Selling and general expenses	28,310,000	23,220,000
Expenses for exploration and general research	13,510,000	10,190,000
Taxes other than Federal and foreign income taxes	9,860,000	8,830,000
Total costs applicable to sales	424,240,000	395,330,000
EARNINGS FROM OPERATIONS	50,780,000	42,840,000
Dividend income (page 18)	20,830,000	11,650,000
Interest income and net profit on investments	12,390,000	5,720,000
Interest on notes payable	(4,270,000)	(3,210,000)
EARNINGS FROM OTHER SOURCES	28,950,000	14,160,000
EARNINGS BEFORE FEDERAL AND FOREIGN INCOME TAXES	79,730,000	57,000,000
Federal and foreign income taxes (page 24)	19,610,000	11,400,000
NET EARNINGS	$ 60,120,000	$ 45,600,000

The notes on pages 24 and 25 are an integral part of these financial statements.

AMERICAN METAL CLIMAX, INC. *and its Consolidated Subsidiaries*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 1965 AND 1964

	1965	1964
CURRENT ASSETS:		
Cash	$ 14,550,000	$ 10,030,000
Time deposits and certificates of deposit	80,360,000	54,690,000
Short-term marketable securities, at cost (approximates market)	90,740,000	66,040,000
Accounts receivable	76,470,000	56,460,000
Inventories (page 24)	74,130,000	68,900,000
Prepaid expenses, advances and other current assets	2,790,000	2,090,000
Total current assets	339,040,000	258,210,000
OTHER ASSETS:		
Long-term receivables, loans, claims and charges	15,380,000	15,380,000
Investments in other companies (page 4)	53,390,000	56,120,000
Property, plant and equipment, less accumulated depreciation and depletion (page 24)	198,090,000	151,150,000
Total assets	605,900,000	480,860,000
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	64,710,000	51,040,000
Notes payable (page 24)	45,540,000	1,850,000
Federal and foreign income taxes	13,080,000	12,560,000
Unearned treatment charges, etc., on metals in process	4,740,000	4,580,000
Total current liabilities	128,070,000	70,030,000
OTHER LIABILITIES:		
Notes payable (page 24)	108,030,000	81,390,000
Reserves, deferred credits, etc. (page 24)	19,840,000	15,560,000
Total liabilities	255,940,000	166,980,000
SHAREHOLDERS' EQUITY (page 23)	$349,960,000	$313,880,000

The notes on pages 24 and 25 are an integral part of these financial statements.

AMERICAN METAL CLIMAX, INC. *and its Consolidated Subsidiaries*

SHAREHOLDERS' EQUITY

DECEMBER 31, 1965 AND 1964

	1965	1964
Cumulative preferred stock, $100 par value, authorized 1,000,000 shares, issuable in series:		
Issued and outstanding, 4¼% convertible series: 1965, 409,802 shares; 1964, 433,167 shares	$ 40,980,000	$ 43,320,000
Common stock, $1 par value, authorized 20,000,000 shares: Issued: 1965, 14,626,096 shares; 1964, 14,498,528 shares	80,370,000	77,970,000
Capital surplus (excess of proceeds over par value of common stock or cost of treasury stock issued upon exercise of stock options)	6,000,000	4,050,000
Retained earnings	223,860,000	189,840,000
	351,210,000	315,180,000
Deduct cost of common stock in treasury: 1965, 43,100 shares; 1964, 44,500 shares	1,250,000	1,300,000
SHAREHOLDERS' EQUITY (page 25)	$349,960,000	$313,880,000

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1965 AND 1964

	1965	1964
Balance at January 1	$189,840,000	$169,150,000
Net earnings for year	60,120,000	45,600,000
	249,960,000	214,750,000
Dividends declared:		
On preferred stock, $4.25 per share	1,800,000	1,840,000
On common stock, per share: 1965, $1.675; 1964, $1.60	24,300,000	23,070,000
	26,100,000	24,910,000
BALANCE AT DECEMBER 31	$223,860,000	$189,840,000

The notes on pages 24 and 25 are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS PRESENTATION:

The 1965 consolidated financial statements include the accounts of all subsidiaries in which a voting control of 51% or more is owned, except Amax Credit Corporation (a wholly-owned finance company which is not material to the financial statements). In 1964 all subsidiaries in which a voting control of 75% or more was owned, except Amax Credit and its subsidiary, Amax Realty Corp., were consolidated. The 1964 Consolidated Statement of Financial Position has been restated to reflect this change. The effect on income was not material.

FEDERAL AND FOREIGN INCOME TAXES:

Investment credit is being accounted for as a reduction of Federal income taxes in the year in which the credit arises. The credit amounted to $2,100,000 in both years; 1964 includes $1,100,000 applicable to prior years.

INVENTORIES:

	1965	1964
Metals refined and in-process, at the lower of cost (average; last-in, first-out; first-in, first-out) or market (at December 31 market quotations: 1965, $49,480,000; 1964, $49,380,000)	$ 29,380,000	$ 30,470,000
Metal fabricated products, etc., at the lower of cost (first-in, first-out) or market	29,330,000	25,180,000
Ores, concentrates and chemicals, at the lower of cost or estimated realization value	6,590,000	5,360,000
Operating supplies, at cost, less reserves	8,830,000	7,890,000
	$ 74,130,000	$ 68,900,000

PROPERTY, PLANT AND EQUIPMENT:

Mining properties and milling plants	$131,380,000	$104,800,000
Smelters and refineries	87,550,000	62,190,000
Oil and gas properties	51,270,000	49,810,000
Metal fabricating plants	47,750,000	39,600,000
Chemical plant	8,330,000	8,000,000
Miscellaneous property and equipment	14,790,000	16,320,000
	341,070,000	280,720,000
Less accumulated depreciation (1965, $121,830,000; 1964, $109,620,000) and depletion	142,980,000	129,570,000
	$198,090,000	$151,150,000
Charges to operations for the year:		
Depreciation	$ 15,410,000	$ 13,550,000
Depletion	2,070,000	2,440,000
	$ 17,480,000	$ 15,990,000

NOTES PAYABLE:

	1965	1964
Current:		
Borrowings wholly secured by time deposits and certificates of deposit	$ 42,000,000	$ —
Portion of long term payable within one year	3,540,000	1,850,000
Total current	$ 45,540,000	$ 1,850,000
Long term:		
4½%, payable $3,000,000 annually 1969 to 1988	$ 60,000,000	$60,000,000
4.85%, payable semi-annually in ascending amounts from $415,000 in December 1966 to $1,045,800 in June 1986	27,500,000	10,000,000
5⅛%, payable semi-annually in ascending amounts from $109,700 in December 1967 to $292,700 in June 1987	7,500,000	—
3⅛%, payable $750,000 annually to 1970 with a final payment in 1971 of $3,750,000	7,500,000	8,250,000
5½%, payable $300,000 annually 1966 to 1979	4,000,000	4,000,000
Other long term	5,070,000	990,000
	111,570,000	83,240,000
Less amounts payable within one year	3,540,000	1,850,000
Net long term	$108,030,000	$81,390,000

RESERVES, DEFERRED CREDITS, ETC.:

Reserves for pensions for United States hourly paid employees	$ 2,080,000	$ 2,330,000
Miscellaneous reserves and noncurrent liabilities	5,920,000	6,210,000
Deferred Federal income tax	11,840,000	7,020,000
	$19,840,000	$15,560,000

GUARANTEES:

At December 31, 1965 the Company was a contingent guarantor of notes and other liabilities aggregating $32,900,000 principally in connection with the 50% owned Intalco aluminum plant.

NOTES TO FINANCIAL STATEMENTS *(concluded)*

SHAREHOLDERS' EQUITY:

Cumulative Preferred Stock: The 4¼% convertible series is convertible into common stock of the Company at the rate of 2½ shares of common stock for each share of preferred stock. At December 31, 1965 there were 1,024,505 shares of common stock reserved for conversion. The preferred stock may be called for redemption in whole or in part at any time on or after September 1, 1967 at $105 per share, graduated downward to $100 per share after September 1, 1977 plus accrued dividends. The holders of this series are entitled to like payment on voluntary liquidation of the Company and to $100 per share, plus accrued dividends, on involuntary liquidation. The holders are also entitled to one vote for each share on all matters submitted to shareholders of the Company. During 1965, 23,365 shares were converted to common stock and $2,340,000 was transferred to the Common Stock account.

Dividend Limitations: Agreements entered into in connection with the notes payable impose restrictions (based on income and working capital) on the payments of cash dividends and the reacquisition of the Company's capital stock. At December 31, 1965 approximately $107,000,000 of retained earnings was free of the restrictions based on income, and working capital exceeded requirements by approximately $100,000,000.

Stock Option Plans: At December 31, 1965 options were outstanding to purchase 243,429 shares of the Company's common stock under Qualified or Restricted Stock Option Plans.

Changes in stock options during 1965 were as follows:

		Number of Option Shares	
	Price Range Per Share	*Unexercised*	*Available for Future Grants*
Balance at January 1	$15.00-$43.75	316,305	280,400
Options terminated	$24.60-$43.75	(2,309)	2,100
Options exercised	$15.00-$43.75	(70,567)	—
Balance at December 31	$18.30-$43.75	243,429	282,500

Options for 240,443 shares were exercisable at December 31, 1965 and those for 2,986 shares will become exercisable in 1966; the options expire at various dates to 1972.

LYBRAND, ROSS BROS. & MONTGOMERY

COOPERS & LYBRAND
IN AREAS OF THE WORLD
OUTSIDE THE UNITED STATES

2 BROADWAY
NEW YORK 10004

To the Shareholders and Board of Directors
AMERICAN METAL CLIMAX, INC.
New York, N.Y.

We have examined the consolidated statement of financial position of AMERICAN METAL CLIMAX, INC. and its Consolidated Subsidiaries as of December 31, 1965 and the related consolidated statements of earnings and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the financial statements for the year 1964 which have been restated to reflect the change in consolidation policy made in 1965 as described on page 24.

In our opinion, the accompanying financial statements (pages 21 to 25) present fairly the financial position of American Metal Climax, Inc. and its consolidated subsidiaries at December 31, 1965 and 1964 and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros. & Montgomery

New York, March 17, 1966

AMAX

AMERICAN METAL CLIMAX, INC.

The New Amax Corporate Insignia

The new official corporate logotype is used throughout this Report. Although the name AMAX has been used as an abbreviation for American Metal Climax, Inc. for a number of years, it has now been formally adopted for corporate communicative identification. There is no legal change in the name American Metal Climax, Inc.